

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name St. Clair River Sewer And Water Authority	County St. Clair
Audit Date 12/31/04	Opinion Date 6/4/05	Date Accountant Report Submitted to State: 6/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

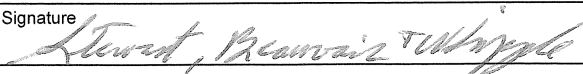
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 6/29/05	

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**ANNUAL FINANCIAL REPORT
WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR RIVER SEWER AND WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the accompanying component unit financial statements of the St. Clair River Sewer and Water Authority as of December 31, 2004 and 2003 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.


In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair River Sewer and Water Authority as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the basic financial statements, the Authority's adopted Governmental Accounting Statements Board Statements 34 and related statements as of and for the year ended December 31, 2004. This resulted in a change to the Authority's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 4, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Authority. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, except for the portion marked "Unaudited" on which we express no opinion has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

June 4, 2005

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of the St. Clair River Sewer and Water Authority's financial statements provides an overview of the Authority's financial activities for the years ended December 31, 2004 and 2003. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary financial information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities. The Net Asset balance is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. Supplementary information and tables are also provided for information purposes.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

Fund Financial Statements

The Authority has only one fund, the Operating Fund, in which all of the Authority's sewer and water activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

FINANCIAL OVERVIEW

The Authority had net assets of \$472,099 at December 31, 2004. This is an increase of \$103,067 from fiscal 2003. The table below summarizes the net assets at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Assets		
Current assets	\$ 725,231	\$ 553,307
Liabilities		
Current liabilities	100,304	104,019
Long-term liabilities	<u>152,228</u>	<u>69,967</u>
Total liabilities	<u>252,532</u>	<u>173,986</u>
Net Assets		
Restricted for equipment replacement	<u>\$ 472,099</u>	<u>\$ 369,103</u>

Since the operations of the Authority through agreement with the Charter Township, is to break even, the increase was directly related to net assets restricted for equipment replacement.

The following table summarizes the changes in net assets for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Operating Revenue	\$ 1,003,239	\$ 923,299
Operating Expenses	<u>1,003,239</u>	<u>923,299</u>
Operating Income	-	-
Non Operating Revenue	<u>103,067</u>	<u>11,496</u>
Net Income	<u>\$ 103,067</u>	<u>\$ 11,496</u>

The operating expenses increased from 2003 in the amount of \$79,840 or 8.7% of total 2003 operating expenses. Of the increase, \$87,265 was related to sewage disposal operations while water operations had a reduction in expenses (\$7,425). The two major increases in expenditures for the sewage disposal system were the result of increase wages, related fringes and sludge removal costs.

CAPITAL ASSETS

The St. Clair River Sewer and Water Authority was established by the Charter Townships of China and East China to operate the sewer and water plants that provide services to both Charter Townships. The original sewer plant is owned by the Charter Township of East China, and recorded on the records of the Charter Township of East China. The water plant is owned by both Charter Townships (East China and China). The water plant is recorded on the respective Charter Township records based on percentage of ownership.

LONG-TERM DEBT

The long-term debt the Authority consists of an advance from the Charter Township of East China's sewer funds of \$98,318. The amount is to be repaid as funding becomes available. The long-term debt also includes \$61,910 of accumulated sick leave that has vested and is available to the employees of the Authority.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Next years budget has been increased to reflect the inflation and to cover anticipated maintenance. Since billing customers is the responsibility of the Charter Townships, the Authority is again assured of revenues from each Charter Township, based on flow percentage of total. An effort has been made to maintain costs so as not to have excessive increase in costs to the Charter Townships. A continuous review is made of efficiency of operations and the management of water system leakage and sewer system infiltration.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the St. Clair River Sewer and Water Authority, 5111 River Road, East China, Michigan 48054.

BASIC FINANCIAL STATEMENTS

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets:		
Cash	\$ 9,144	\$ 7,060
Investments	636,146	523,177
Accounts receivable	-	1,304
Interest receivable	389	84
Due from Charter Township of China	14,908	21,619
Due from Charter Township of East China	64,485	-
Prepaid expenses	159	63
	<u>\$ 725,231</u>	<u>\$ 553,307</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 21,204	\$ 13,526
Accrued salaries and wages	6,913	5,154
Accrued payroll taxes	529	367
Accrued vacation	16,187	13,125
Deposits payable	56,000	56,000
Due to Charter Township of East China	-	26,432
	<u>100,833</u>	<u>114,604</u>
Long-Term Liabilities:		
Advance from East China sewer fund	90,318	-
Accrued sick leave	61,910	69,967
	<u>152,228</u>	<u>69,967</u>
	253,061	184,571
Net Assets:		
Restricted - Equipment Replacement	<u>472,170</u>	<u>369,103</u>
	<u>\$ 725,231</u>	<u>\$ 553,674</u>

See Notes to
Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 876,120	\$ 800,730
Charter Township of China	<u>127,119</u>	<u>122,569</u>
	<u>1,003,239</u>	<u>923,299</u>
Operating Expenses:		
Salaries and wages	459,559	442,006
Fringe Benefits	180,630	159,485
Administrative expense	6,500	6,500
Office supplies	1,961	2,521
Operating supplies	47,395	42,865
Utilities	114,841	117,210
Professional service	15,101	7,804
Insurance	65,831	59,390
Sludge removal	26,832	11,340
Repairs and maintenance	54,074	51,495
Equipment rental	24,621	16,855
Other	5,894	5,828
	<u>1,003,239</u>	<u>923,299</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	93,000	63,000
Interest earned-equipment replacement reserve	7,476	7,931
Interest earned-water operating	2,591	739
Sewer plant improvements transferred to East China plant	-	(54,274)
Water plant improvement transferred to Charter Townships	-	(5,900)
	<u>103,067</u>	<u>11,496</u>
Change in net assets	103,067	11,496
Net assets at beginning of year	<u>369,103</u>	<u>357,607</u>
Net assets at end of year	<u><u>\$ 472,170</u></u>	<u><u>\$ 369,103</u></u>

See Notes to
Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 967,852	\$ 974,904
Payments to suppliers	(403,288)	(322,141)
Payments to employees	(462,266)	(471,056)
Payments for employee benefits	(180,630)	(125,877)
Net Cash Provided (Used) By Operating Activities	<u>(78,332)</u>	<u>55,830</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	-	(60,174)
Service fees for equipment replacement	93,000	63,000
Advance from sewer fund	90,318	-
Net Cash Provided by Capital and Related Financing Activities	<u>183,318</u>	<u>2,826</u>
Cash Flows From Investing Activities:		
Net changes in investments	(112,969)	(117,031)
Interest	10,067	11,166
Net Cash Used by Investing Activities	<u>(102,902)</u>	<u>(105,865)</u>
Net Increase (Decrease) in cash	2,084	(47,209)
Cash at beginning of year	<u>7,060</u>	<u>54,269</u>
Cash at end of year	<u><u>\$ 9,144</u></u>	<u><u>\$ 7,060</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating loss for the year	\$ -	\$ -
Adjustments to reconcile operating loss to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	1,304	(9,675)
Interest receivable	(364)	-
Prepaid expenses	(37)	25,321
Due from Charter Townships	(58,106)	20,667
Accounts payable	7,678	4,558
Accrued liabilities	(2,708)	-
Due to Charter Townships	<u>(26,099)</u>	<u>14,959</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (78,332)</u></u>	<u><u>\$ 55,830</u></u>

See Notes to
Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003

The accounting methods and procedures adopted by the St. Clair River Sewer and Water Authority conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The St. Clair River Sewer and Water Authority was created by the Charter Townships of China and East China, both located in the County of St. Clair, Michigan. The Authority is operated under a joint five (5) member Board appointed by the Charter Township's Boards, the purpose of which is to operate and maintain a sanitary sewage treatment plant and water plant in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The Authority has contracted with the Charter Township of East China to perform the administration, operations, and maintenance of the facilities.

B. In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

The Authority elected to adopt GASB 34 for the year ended December 31, 2004. The most significant change to the financial report was the inclusion of a management's discussion and analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

C. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The St. Clair River Sewer and Water Authority is accounted for in two business-type funds.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

E. Assets, Liabilities and Net Assets –

Cash and Cash Equivalent –

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

Deposits –

The deposits represent money deposited by the Charter Townships of China and East China to provide cash for the operations of the sewer and water systems.

Receivable –

The Authority bills the two Charter Townships based on the percentage of sewer and water usage. It is the responsibility of the Charter Townships to bill individual customers. Based on a reconciliation of estimate payments to final results, the Charter Townships either owe or are owed an amount at the end of the year. These amounts are reported as due from or to the Charter Townships.

Capital Assets –

The St. Clair River Sewer and Water Authority was established to administer and operate the Sewer and Water Utility Plants servicing the Charter Townships of China and East China. No capital assets are owned by the Authority. Ownership is retained by the Charter Townships and recorded in the Charter Township's records.

Estimates –

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits –

The Michigan Compiled Law authorizes the Authority to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The St. Clair River Sewer and Water Authority's deposits consist of checking accounts and certificates of deposit. At December 31, 2004 and 2003, the carrying amounts and bank balance of the Authority's deposits are \$9,144 and \$7,060, respectively, which were insured by federal deposit insurance.

Investments –

The Authority at December 31, 2004 and 2003 held \$536,146 and 523,177, respectively in financial investment (pool) that is evidenced by securities that exist in physical or book entry form. The investment is registered with the Securities and Exchange Commission and the fair value of the Authority's portion in the investment pool is the same as the value of the investment pool shares. The investment pools have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pools are recorded at cost which approximates fair value.

The investment trust funds have been reported in the financial statements as investments even though the investment trust funds have characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that it is the intent of the Township to not make regular withdrawals since the funds are part of the Charter Township's pooled investment program.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 2 – DEPOSITS AND INVESTMENTS – (cont'd):

As of December 31, 2004, the Township's investments are susceptible to the following risk categories as summarized in the table below:

1. Insured or registered for which the securities are held by the Township's or its agent in the Township's name.
2. Uninsured and unregistered for which the securities are held by the broker or agent in the Township's name.
3. Uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in the Township's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Federal Home Loan	\$ -	\$ -	\$ 100,000	\$ 100,000	\$ 100,000
Unclassified Investments – Investment Trusts				<u>536,146</u>	<u>536,146</u>
				<u>\$ 636,146</u>	<u>\$ 636,146</u>

NOTE 3 – SEWAGE DISPOSAL AGREEMENT:

The Charter Township of East China owns the sewage disposal plant. However, along with the Charter Township of China has contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance, and administration of the sewage disposal plant. The total cost of the operations and administration of the sewage disposal plant is billed to the two Charter Townships based on reserved capacity and flow applicable to each Charter Township after reimbursement from the Authority water fund.

NOTE 4 – WATER FILTRATION AGREEMENT:

In 1999, the Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a water filtration plant. The County has completed construction on the plant and is leasing it to the Charter Townships. The Charter Townships have contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance and administration of the plant and related distribution lines. The total cost of operations, maintenance and administration of the water filtration system is billed to the Charter Townships based on water flow and distribution line benefit.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 5 – DUE FROM CHARTER TOWNSHIPS:

The following is a schedule of the amount due from the Charter Townships at December 31, 2004:

	<u>Departments</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Charter Township of China			
December 2004 billing	\$ 5,593	\$ 5,237	\$ 10,830
Annual settlement	<u>7,469</u>	<u>(3,391)</u>	<u>5,922</u>
	<u><u>13,062</u></u>	<u><u>1,846</u></u>	<u><u>14,908</u></u>
 Charter Township of East China			
Annual settlement	41,282	(95,680)	(54,398)
Other	<u>-</u>	<u>118,883</u>	<u>118,883</u>
	<u><u>\$ 41,282</u></u>	<u><u>\$ 23,203</u></u>	<u><u>\$ 64,485</u></u>

NOTE 6 – DEPOSITS FOR OPERATIONS:

The deposit balance represents money deposited by the Charter Townships of East China and China to provide cash for operations of the sewer and water system. The deposit balance per Charter Township is as follows:

<u>Sewer Department</u>		
	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Charter Township of East China	\$ 32,900	\$ 32,900
Charter Township of China	<u>2,100</u>	<u>2,100</u>
	<u><u>\$ 35,000</u></u>	<u><u>\$ 35,000</u></u>
 <u>Water Department</u>		
	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Charter Township of East China	\$ 16,000	\$ 16,000
Charter Township of China	<u>5,000</u>	<u>5,000</u>
	<u><u>\$ 21,000</u></u>	<u><u>\$ 21,000</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7 – RESTRICTED FOR EQUIPMENT REPLACEMENT:

The Charter Townships have elected to have a portion of the fees charged to them to be restricted for equipment replacement. The following is a summary of the change in the restricted balances for the year ended December 31, 2004:

	<u>Sewer Department</u>	<u>Water Department</u>
Restricted balance at December 31, 2003	\$ 359,264	\$ 9,839
Service fees for equipment replacement	48,000	45,000
Interest earned	<u>7,476</u>	<u>2,591</u>
Restricted balance at December 31, 2004	<u>\$ 414,740</u>	<u>\$ 57,430</u>

SUPPLEMENTARY FINANCIAL INFORMATION

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**SEWER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	2004	2003
ASSETS		
Current Assets:		
Cash	\$ 5,504	\$ 3,321
Investments	453,547	462,956
Interest receivable	389	84
Due from -		
Charter Township of China	13,062	11,768
Charter Township of East China	41,282	-
Prepaid Expenses	59	-
	<u>\$ 513,843</u>	<u>\$ 478,129</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 8,852	\$ 6,310
Accrued salaries and wages	3,720	2,211
Accrued payroll taxes	285	169
Accrued vacation	7,937	8,866
Deposits payable	35,000	35,000
Due to water fund	11,587	11,076
Due to Charter Township of East China	-	26,242
	<u>67,381</u>	<u>89,874</u>
Long-Term Liabilities:		
Accrued sick leave	<u>31,722</u>	<u>28,991</u>
	99,103	118,865
Net Assets:		
Restricted - Equipment replacement	<u>414,740</u>	<u>359,264</u>
	<u>\$ 513,843</u>	<u>\$ 478,129</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SEWER DEPARTMENT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 406,975	\$ 324,746
Charter Township of China	71,311	68,906
Authority Water Fund	<u>47,878</u>	<u>45,247</u>
Total Operating Revenues	<u>526,164</u>	<u>438,899</u>
Operating Expenses:		
Salaries and wages	250,966	216,901
Fringe benefits	106,079	84,288
Administrative expense	6,500	6,500
Office supplies	629	1,516
Operating supplies	24,357	20,685
Utilities	57,639	56,908
Professional service	2,083	2,033
Insurance	20,878	22,304
Sludge removal	26,832	11,340
Repairs and maintenance	23,230	14,588
Equipment rental	3,398	623
Other	<u>3,573</u>	<u>1,213</u>
Total Operating Expenses	<u>526,164</u>	<u>438,899</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	48,000	48,000
Interest earned-equipment replacement	7,476	7,931
Equipment and plant improvements transferred to Charter Township	<u>-</u>	<u>(54,274)</u>
Total Non-Operating Revenues (Expenses)	<u>55,476</u>	<u>1,657</u>
Change in net assets	55,476	1,657
Net assets at beginning of year	<u>359,264</u>	<u>357,607</u>
Net assets at end of year	<u><u>\$ 414,740</u></u>	<u><u>\$ 359,264</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SEWER DEPARTMENT**STATEMENT OF CHANGES IN CASH FLOW****FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 456,982	\$ 395,722
Receipts from water fund	511	41,956
Payments to suppliers	(166,577)	(137,750)
Payments to employees	(247,539)	(230,362)
Payments for employee benefits	(106,079)	(67,857)
Net Cash Provided (Used) By Operating Activities	<u>(62,702)</u>	<u>1,709</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	-	(54,274)
Service fees for equipment replacement	48,000	48,000
Net Cash Used by Capital and Related Financing Activities	<u>48,000</u>	<u>(6,274)</u>
Cash Flows From Investing Activities:		
Net changes in investments	9,409	(56,810)
Advance to water fund	-	-
Interest	7,476	10,427
Net Cash Provided (Used) by Investing Activities	<u>16,885</u>	<u>(46,383)</u>
Net Increase (Decrease) in Cash	2,183	(50,948)
Cash at beginning of year	<u>3,321</u>	<u>\$ 54,269</u>
Cash at end of year	<u><u>\$ 5,504</u></u>	<u><u>\$ 3,321</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities -		
Changes in assets and liabilities -		
Due from Charter Townships	(42,398)	(44)
Interest Receivable and other	(364)	
Accounts payables	2,542	(40)
Accrued liabilities	3,427	2,970
Due to other fund	(511)	(3,291)
Due to Charter Townships	(25,398)	2,114
Net Cash Provided by Operating Activities	<u><u>\$(62,702)</u></u>	<u><u>\$ 1,709</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR SEWER SERVICES TO CHARTER TOWNSHIPS
(UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2004

FLOW APPORTIONMENT OF SEWER NET OPERATING EXPENSES

	Annual Sewer Flow (A)		
	Total	Residential and Commercial	Township Percentage
Charter Township Of China:			
Belle River Edison Plant (metered sewer)	2,094 gal		
Continental Coating (metered sewer)	795	795 gal	
Residential and Commercial (B)	12,560	12,560 gal	6.83%
	<u>15,449 gal</u>	<u>13,355 gal</u>	
Water Plant			
Reject water into plant	21,862 gal		
Charter Township of East China:			
St. Clair Edison Plant (metered sewer)	20,678		
Residential and Commercial (balance of flow (C))	182,167	182,167 gal	93.17%
	<u>202,845</u>		
Total Metered Flow at Sewer Plant	<u>240,156 gal</u>	<u>195,522 gal</u>	<u>100.00%</u>

Notes:

- (A) Flow is in 1,000 gallons.
- (B) Based on water flow of 9,304 gallons increased by 34.9% for seepage.
- (C) Represents balance after Charter Township of China, St. Clair Edison Plant and Water Plant flows are subtracted from total metered flow at Sewer Plant.

DOLLAR APPORTIONMENT

	Total	Charter Township of China	Charter Township of East China
Total Expenses to be Apportioned:			
Operation and maintenance expenses	\$ 526,164		
Add - restrictions for equipment replacement	48,000		
Less - sewer usage by water plant	(47,878)		
Total Expenses to be Apportioned	<u>\$ 526,286</u>		
Township Portion of Expenditures:			
Total expenditures to be apportioned	\$ 526,286		
Less - charges for sewer services to Edison plants based on reserved capacity, not flow, (76,945,650 gal x \$2.72/thousand gallons)	(209,292)	\$ 52,938	\$ 156,354
Balance apportioned to Townships based on 6.83% and 93.17%, respectively	<u>316,994</u>	<u>21,651</u>	<u>295,343</u>
Total Sewer Service Charges	526,286	74,589	451,697
Less - 2004 billings	(477,535)	(67,120)	(410,415)
Amount due from Charter Townships	<u>\$ 48,751</u>	<u>\$ 7,469</u>	<u>\$ 41,282</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**WATER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	2004	2003
ASSETS		
Cash	\$ 3,640	\$ 3,739
Investments	182,599	60,221
Accounts receivable	-	1,304
Due from sewer fund	11,587	11,076
Due from -		
Charter Township of China	1,846	9,851
Charter Township of East China	23,203	-
Prepaid expenses	100	63
	<u>\$ 222,975</u>	<u>\$ 86,254</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	\$ 12,352	\$ 7,216
Accrued salaries and wages	3,193	2,576
Accrued Payroll Taxes	244	198
Accrued vacation	8,250	4,259
Deposits payable	21,000	21,000
Due to Charter Township of East China	-	190
	<u>45,039</u>	<u>35,439</u>
Long-Term Liabilities:		
Advance from East China sewer fund	90,318	-
Accrued sick leave payable	30,188	40,976
	<u>120,506</u>	<u>40,976</u>
 Total Liabilities	 <u>165,545</u>	 <u>76,415</u>
Net Assets:		
Restricted - Equipment Replacement	<u>57,430</u>	<u>9,839</u>
	<u>\$ 222,975</u>	<u>\$ 86,254</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

WATER DEPARTMENT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE PERIODS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating Revenues:		
Charges for services (water usage) -		
Charter Township of East China	\$ 391,984	\$ 405,780
Charter Township of China	34,549	34,321
	<u>426,533</u>	<u>440,101</u>
Charges for services (water distribution lines) -		
Charter Township of East China	77,161	70,204
Charter Township of China	21,259	19,342
	<u>98,420</u>	<u>89,546</u>
Total Operating Revenue	<u>524,953</u>	<u>529,647</u>
Operating Expenses:		
Plant -		
Salaries and wages	171,666	192,038
Fringe benefits	71,726	72,668
Office supplies	1,332	1,005
Operating supplies	19,359	19,348
Professional services	13,018	5,771
Utilities	51,227	55,154
Insurance	23,337	20,256
Repairs and maintenance	23,049	23,880
Equipment rental	1,795	320
Sewer Plant processing of flow back	47,878	45,247
Other	2,146	4,414
	<u>426,533</u>	<u>440,101</u>
Distribution Lines -		
Salaries and wages	36,927	33,067
Fringe benefits	2,825	2,529
Supplies	3,679	2,832
Utilities	5,975	5,148
Insurance	21,616	16,830
Repairs and maintenance	7,795	13,027
Equipment rental	19,428	15,912
Other	175	201
	<u>98,420</u>	<u>89,546</u>
Total Operating Expenses	<u>524,953</u>	<u>529,647</u>
Total Operating Income	<u>-</u>	<u>-</u>
Non-Operating Revenues:		
Service fees for equipment replacement	45,000	15,000
Interest earned- equipment replacement	2,591	739
Plant improvement transfer	-	(5,900)
Total Non-Operating Revenues	<u>47,591</u>	<u>9,839</u>
Change in net assets	47,591	9,839
Net assets at beginning of year	<u>9,839</u>	<u>-</u>
Net assets at end of year	<u>\$ 57,430</u>	<u>\$ 9,839</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

WATER DEPARTMENT

STATEMENT OF CHANGES IN CASH FLOWS

FOR THE PERIOD ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 510,870	\$ 558,182
Receipts from sewer fund	(511)	3,291
Payments to suppliers	(236,711)	(208,638)
Payments to employees	(214,727)	(240,694)
Payments for employee benefits	(74,551)	(58,020)
Net Cash Provided (Used) By Operating Activities	<u>(15,630)</u>	<u>54,121</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	-	(5,900)
Service fee for equipment replacement	45,000	15,000
Due to Charter Township of East China	-	-
Advance from sewer fund	90,318	-
Net Cash Provided by Capital and Related Financing Activities	<u>135,318</u>	<u>9,100</u>
Cash Flows From Investing Activities:		
Net change in investment	(122,378)	(60,221)
Interest	2,591	739
Net Cash Used by Investing Activities	<u>(119,787)</u>	<u>(59,482)</u>
Net Increase (Decrease) in Cash	(99)	3,739
Cash at beginning of year	<u>3,739</u>	<u>-</u>
Cash at end of year	<u>\$ 3,640</u>	<u>\$ 3,739</u>
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss for the year	\$ -	\$ -
Adjustments to reconcile operating loss to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	1,304	(9,675)
Prepaid expenses	(37)	-
Due from Charter Township of East China	(23,202)	10,854
Due from Charter Township of China	8,005	26,291
Due from other fund	(511)	3,291
Accounts payable	5,136	20,707
Accrued liabilities	(6,135)	1,588
Due to Charter Township of East China	(190)	190
Due to Charter Township of China	-	875
Net Cash Used by Operating Activities	<u>\$(15,630)</u>	<u>\$ 54,121</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR WATER SERVICES TO CHARTER TOWNSHIPS
(UNAUDITED)****FOR THE YEAR ENDED DECEMBER 31, 2004****FLOW APPORTIONMENT OF WATER PLANT NET OPERATING EXPENSES**

		Water Flow	Township Percentage
Total water flow from plant		165,067 gal	100.0%
Less flow to:			
China Township residential and commercial customers	10,276		
Belle River Edison Plant	<u>3,005</u>	13,281 gal	<u>8.1%</u>
Water flow for Charter Township of East China		<u>151,786 gal</u>	<u>91.90%</u>

DOLLAR APPORTIONMENT

	Total	Charter Township of China	Charter Township of East China
Total Expenses to be Apportioned:			
Total Expenses to be Apportioned	\$ 426,533		
Add restricted for replacement-			
modules/ fibers	25,000		
other equipment	<u>\$ 20,000</u>		
	471,533	38,194	433,339
Less - 2004 billings	<u>(571,080)</u>	<u>(41,688)</u>	<u>(529,392)</u>
Due to Charter Townships	<u>\$(99,547)</u>	<u>\$(3,494)</u>	<u>\$(96,053)</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR OPERATION AND MAINTENANCE OF WATER DISTRIBUTION LINES
(UNAUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2004

MILEAGE APPORTIONMENT BASED ON SYSTEM BENEFIT

	Operations and Maintenance Distribution				
	China		East China		
	Number of Miles	Percentage of total	Number of Miles	Percentage of total	Number of Miles
Charter Township of China:					
Joint Transmission	3.0	80%	2.4	20%	0.6
China Only	<u>2.5</u>	100%	<u>2.5</u>	0%	<u>0.0</u>
	<u>5.5</u>		<u>4.9</u>		<u>0.6</u>
Charter Township of East China:					
Joint Transmission	9.5	20%	1.9	80%	7.6
East China Only	<u>16.5</u>		<u>0.0</u>	100%	<u>16.5</u>
	<u>26.0</u>		<u>1.9</u>		<u>24.1</u>
Totals	<u>31.5 miles</u>		<u>6.8 miles</u>		<u>24.7 miles</u>

Charter Township of China	6.8 miles	21.6%
Charter Township of East China	<u>24.7 miles</u>	<u>78.4%</u>
	<u>31.5 miles</u>	<u>100.0%</u>

SUMMARY DOLLAR APPORTIONMENT

		China 21.60%	East China 78.40%
Total Expense	\$ 98,420	\$ 21,259	\$ 77,161
Paid in 2004	<u>97,944</u>	<u>21,156</u>	<u>76,788</u>
Due from Charter Townships	<u>\$ 476</u>	<u>\$ 103</u>	<u>\$ 373</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the financial statements of The St. Clair River Sewer and Water Authority as of and for the year ended December 31, 2004, and have issued our report thereon, dated June 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control over Financial Reporting

In planning and performing our audit, we considered The St. Clair River Sewer and Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Clair River Sewer and Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of the St. Clair River Sewer and Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

June 4, 2005